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UNCLAS ANKARA 008797

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SENSITIVE

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TREASURY FOR OASIA - MILLS AND LEICHTER
STATE PASS USTR FOR NOVELLI AND BIRDSEY

E.O. 12958: N/A
TAGS: ECON EFIN PREL TU
SUBJECT: TURKEY'S INFLATION/GROWTH OVERPERFORMING; BUT FISCAL/STRUCTURAL CONCERNS REMAIN

REF: ANKARA 8369

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Economy Overperforming on Inflation and Growth Targets
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¶1. (U) November inflation data, released December 3, were slightly better than market expectations: Wholesale price increase was 1.6 percent (versus market expectations of 1.9 percent); Consumer price increase was 2.9 percent (market average expectation was 3.0 percent).

¶2. (U) November declining inflation rats reflect the post-election lira appreciation, particularly evident in the wholesale sector, which relies on imported goods. Markets now predict a year-end CPI of 31 percent (under the 35 percent target), and year-end WPI of about 31 percent (right on target).

¶3. (SBU) Growth is another area of good economic news: third quarter 2002 industrial production figures show a 10.9 percent increase from the third quarter of 2001. One local market analyst, Bender Securities, now projects year-end GNP growth of 7 percent. (Comment: Bender is the most optimist we've seen on growth; Treasury Undersecretary privately predicts 5 percent GNP growth (reftel). The official target is still 4 percent. In any case, the 2002 growth story is not based solely on inventory rebuilding after a terrible decline of 9.7 percent in 2001. Part of this year's story is also very strong export performance, though exports only equal about 18 percent of GNP).

Comment: Need for Continuing Fiscal Reforms

¶4. (SBU) The macro-economic news will likely cheer the markets. But the market focus is now on the new government's meetings with IMF Europe Director Deppler (we will get read-out December 4), and EU/Cyprus developments. The initial press is good: Deputy PM Sener, after meeting with IMF's Deppler, announced that the GOT would commit to a 6.5 percent primary surplus target in 2003.

¶5. (SBU) The IMF Mission scheduled to begin December 9 will need to examine closely how the GOT plans to meet its fiscal targets in 2003, not just the headline number. Finance Ministry Deputy DG for the Budget Ahmet Kesik told us the main fiscal problem lies in the three large GOT pension funds: he estimates their total 2002 deficits at about 3 percent of GNP (about $5 billion). To date, the GOT has been funding these pension fund deficits to some extent by delaying discretionary social spending (e.g., farmers direct income payments, unemployment payments), which the new GOT is committed to correcting. Pension fund reform, an effort started in 1999 but left undone per Kesik, now becomes an immediate priority for the GOT's 2003 budget and financing problems. We will report more septel on the prospects for pension fund reform.
PEARSON